



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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TO: Russ Guiney, Director
Department of Parks and Recreation

FROM: Wendy L. Watanabe 
Auditor-Controller

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION – REVIEW OF
PROPOSITION A CONTRACT COST ANALYSIS FOR MAINTENANCE
SERVICES AT LA PUENTE AREA PARKS**

The Board of Supervisors requires the Auditor-Controller (A-C) to review a sample of Proposition A contracts with an annual contract amount of less than \$1 million to ensure departments are completing cost analyses properly. Accordingly, we have reviewed the Department of Parks and Recreation's (DPR) Proposition A cost analysis for the contract with Mariposa Landscapes, Inc. for maintenance services at La Puente Area Parks, effective October 1, 2012.

Proposition A (County Code Section 2.121) allows County departments to contract for services that are or could be performed by County employees, if the department can demonstrate that the work can be performed more economically by an independent contractor. To determine if contracting is cost effective, departments prepare a cost analysis that compares contracting costs to estimated actual avoidable County costs for providing the same level of service. Section 12.2.0 of the County Fiscal Manual (CFM) contains guidelines for preparing a Proposition A cost analysis, and defines applicable terms. For example, CFM Section 12.2.3 defines avoidable costs as costs that will be eliminated or not incurred as a result of the decision to contract for the services.

Based on our review, we concur with the Department that the contract with Mariposa Landscapes is cost effective. However, we noted a few areas where the Department can improve the accuracy of the cost analysis. Although the changes we are recommending would not have changed the conclusion that this contract is cost effective, the issues we noted could affect the calculation of cost effectiveness for DPR's future Proposition A contracts. DPR currently has 46 Proposition A contracts.

DPR should apply the recommendations in this report to all of the Department's future Proposition A cost analyses.

The following are examples of areas for improvement:

Overall Analysis

During our review, we noted that DPR staff used estimates from prior Proposition A cost analyses. While it is appropriate to refer to prior analyses, DPR staff need to analyze the County's avoidable costs for each contract to ensure cost estimates are consistent with and applicable to current contract service levels, statement of work requirements, etc. In addition, staff should document the method used and any assumptions made. This will assist staff performing future analyses to determine how they should estimate avoidable costs.

Recommendation

- 1. Department of Parks and Recreation management ensure staff analyze estimated avoidable costs for each Proposition A cost analysis, and document the method used and any assumptions made.**

Avoidable Positions

To provide a relevant estimate of cost savings, departments must estimate avoidable costs based on providing the same level of service that is required of the contractor, even if that differs from the service the County historically provided. This can be done by using historical positions and adjusting for differences in the scope of work, or by using another method to estimate positions the County would need. Departments should also analyze if the positions would actually be avoidable, and only include avoidable positions in the cost analysis. All estimates should be documented and supported.

We noted the following:

- DPR was unable to provide support for the method used to estimate the number of avoidable County positions used in the cost analysis. As a result, we compared DPR's total estimated positions to the contractor's total number of positions and noted that, after adjusting for differences in productive work hours, DPR's total estimated positions were comparable to the contractor's positions. However, DPR should document the methodology for estimating the number and level of avoidable positions, to ensure the estimates are reasonable. DPR may want to consider developing standardized methods for estimating avoidable positions based on the contracted scope of work. For example, DPR could

estimate hours needed to mow grass at parks based on the size of parks, frequency of mowing required by the contract, and so on.

- DPR included a County position that was not avoidable, since existing County staff would perform the duties if DPR were to bring the services in-house instead of contracting them out.
- For one position, DPR used a higher level County position than was required to perform the duties in the statement of work. Specifically, DPR used the Utility Tractor Operator position in the cost analysis, even though the duties of a Light Tractor Operator position are more comparable to the scope of work. Use of the more appropriate Light Tractor Operator position would have resulted in lowering the County's avoidable cost and cost savings. DPR indicated that use of the higher level position was a mistake.

Recommendations

Department of Parks and Recreation management:

- 2. Document the methodology used to estimate the number of avoidable County positions used in cost analyses, and consider developing standardized methods for estimating avoidable positions based on the contracted scope of work.**
- 3. Analyze staffing so that only avoidable positions are included in the cost analysis.**
- 4. Ensure the duties of County positions used in the cost analysis are comparable to the scope of work required of the contractor.**

Salary Adjustments

To calculate estimated avoidable County salaries, departments should use top step salary rates, adjusted by a factor to recognize that not all employees are on the top step of their item classification. In addition, departments should multiply salaries by the department's employee benefits (EB) rate to calculate avoidable EBs. The A-C annually calculates fifth step variance factors and EB rates for each department. However, although DPR appropriately used the current salary levels, DPR did not use the most current fifth step variance factor and EB rates.

Recommendation

- 5. Department of Parks and Recreation management use the most current fifth step variance factor and employee benefit rates available in their cost analyses.**

Services & Supplies and Equipment Costs

Per the CFM, avoidable costs for services and supplies (S&S) should be estimated to the extent possible. In addition, the cost of depreciation on equipment is not avoidable, although equipment costs may be avoidable if the department would incur substantial equipment costs to start providing a service. If so, the costs should be amortized over the lesser of the life of the asset or the contract period.

We noted the following:

- DPR did not use current equipment usage rates in their cost analysis. For example, the Department indicated that current mower usage cost rates are available online from the equipment manufacturer. However, DPR used manufacturer equipment usage cost rates calculated in Fiscal Year (FY) 2006-07. In addition, DPR used Internal Services Department Vehicle Usage Motor Pool rates for FY 2003-04, even though FY 2011-12 rates were available. Although DPR indicated that the rates did not change from FY 2003-04 to FY 2011-12, DPR should have checked to ensure they were using the most current rates available.
- DPR could not provide support for the equipment costs included in the cost analysis. We independently verified costs for a sample of equipment and noted the costs DPR used appeared reasonable. However, DPR should have retained documentation supporting their estimates.
- DPR included depreciation on equipment as an avoidable cost. Since DPR indicated they would need to acquire equipment if they were to provide the services in-house, it is appropriate to include equipment costs in the analysis. However, DPR should amortize equipment costs over the lesser of the contract term or the life of the assets, instead of recording depreciation as an avoidable cost.

Recommendations

Department of Parks and Recreation management:

- 6. Ensure staff use the most currently available cost information when estimating avoidable services and supplies costs.**

7. **Maintain documentation of equipment cost estimates.**
8. **Amortize avoidable equipment costs over the lesser of the life of the asset or the contract period.**

Monitoring Costs

Per the CFM, the costs associated with monitoring a contract should be considered in the cost analysis only when such costs are incremental. DPR included County costs to monitor the contract as an additional cost of contracting. However, DPR indicated that a portion of the monitoring costs would be the same whether the services are contracted out or the County provides the services in-house.

Recommendation

9. **Department of Parks and Recreation management only include monitoring costs in Proposition A cost analyses to the extent the monitoring costs are incremental.**

Review of Report

We discussed the results of our review with DPR management, and they indicated general agreement with our findings and recommendations.

We thank DPR management and staff for their cooperation and assistance throughout our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS:TK

c: Audit Committee